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INTRODUCTION

The Michigan Community Coordinated Child Care Association (Michigan 4C) entered into contract number ADMIN-01-99002 with the Michigan Department of Human Services (DHS) to provide training to day care providers, enhanced child care referrals for children with special needs, scholarships and incentives for providers to complete training or become accredited, grants to start or improve day care facilities, special projects, and child care information sessions. The original contract covered the period October 1, 2000 through September 30, 2001. This contract was amended to cover each subsequent fiscal year through September 30, 2004. The Michigan 4C Association is reimbursed for actual costs incurred for providing these services, through submission of monthly billings to DHS. The contract totaled \$4,565,299 for the period October 1, 2002 through September 30, 2003, and \$4,686,629 for the period October 1, 2003 through September 30, 2004.

SCOPE

The Office of Internal Audit performed an audit of the Michigan 4C Association to determine if the agency's billings were accurate, and if costs billed were allowable and properly supported by the accounting records and other relevant documentation, in accordance with the terms of the contract. Our review covered the period October 1, 2002 through July 31, 2004.

EXECUTIVE SUMMARY

Based on our audit, we conclude that the Michigan 4C Association's billings to DHS were accurate, except that for FY 2003 child care information sessions were billed under the Specific Assistance line item, although the contract required that they be billed under the Contracted Services line item. We also concluded that costs billed were allowable and properly documented, except that some of the salaries billed were not supported by

the required time certifications for FY 2003. Based on other documentation, we determined that the salaries charged were reasonable, and the Michigan 4C Association implemented proper time certification procedures for FY 2004.

Proper billing of the child care information sessions for FY 2003 will result in the actual expenses for Contracted Services exceeding the budget by more than the maximum that is allowed without prior approval. Our report recommends that the Children's Services Administration either grant the Michigan 4C Association a retroactive budget amendment or initiate the process to recoup the funds that exceed the maximum amount allowed by the contract budget.

The FY 2004 billings were accurate, and expenses charged were accurate and were properly supported by the accounting records and other relevant information.

AGENCY RESPONSE

The management of the Michigan 4C Association has reviewed the findings and recommendations included in this report. They indicated in a letter dated March 9, 2005 that they are in general agreement with the report. They also requested that the Children's Services Administration consider that the definitions for Contracted Services and Specific Assistance to Individuals were similar because both definitions referred to activities to support improving child care.

FINDINGS AND RECOMMENDATIONS

Salaries – Timekeeping Procedures

1. The Michigan 4C Association did not properly document employees' time and activity for the executive director, business manager, and fiscal assistant for 2003. Federal Office of Management and Budget (OMB) Circular A-122, *Cost Principles*

for Non-Profit Organizations, states in part “Reports reflecting the distribution of activity of each employee must be maintained for all staff members (professional and non-professional) whose compensation is charged, in whole or in part, directly to awards...The reports must reflect an after the fact determination of the actual activity of each employee. Budget estimates do not qualify as support for charges to awards. Each report must account for the total activity for which employees are compensated and which is required in fulfillment of their obligations to the organization.”

Salaries expense for these 3 individuals was billed based on the contract budget. The business manager and fiscal assistant were billed at 38% to this contract. This contract was approximately 38% of the Michigan 4C Association’s total budget. Since it is logical that these two employees would divide their time in approximately the same percentage as the respective shares of the total budget, we accepted the salaries cost billed for them. The executive director kept a calendar on which he recorded hours he was scheduled to spend at meetings related to the various activities. While the calendar is not sufficient to document that the executive director spent 38% of his time on this contract, it does provide evidence that the 38% charged is reasonable. Therefore, we are not recommending a financial adjustment.

The Michigan 4C Association implemented proper timekeeping and allocation procedures for these three employees in January of 2004.

Allocation Methods

2. The Michigan 4C Association allocated life and disability insurance, rent, supplies, postage, equipment, and miscellaneous expenses to the various programs based on the contract budget. OMB Circular A-122 requires that costs be allocated by a

method that ensures that each program is charged its fair share. The amount charged for each of these items is reasonable based on the proportion of salaries expense charged to each program, and the number of employees working on each program. Therefore, no financial adjustment is recommended. However, the Michigan 4C Association should use accurate methods for allocating shared costs (i.e. rent could be allocated based on the number of square feet used by each program).

WE RECOMMEND the Children's Services Administration ensure that the Michigan 4C Association allocates costs by a method that ensures that each program is charged its fair share of the costs.

Specific Assistance – Child Care Information

3. The Michigan 4C Association billed \$146,294.47 for Child Care Information sessions under the Specific Assistance line item in FY 2003. These sessions were included in the contract budget under the Contractual Services line item. Transferring these costs to the Contractual Services line item results in costs for that line item exceeding the allowable amount per the contract by \$38,934.65. See Schedule A.

Proper classification of the child care information sessions causes the actual expenditures for contracted services to exceed the budget because the amount paid to the regional 4C agencies for special needs and enhanced referrals was \$104,950, while the amount budgeted for these referrals was \$41,680.

The Michigan 4C Association informed us that no providers were denied incentives, scholarships, start-up grants, or EQUIP grants due to a lack of funds for those purposes. In addition, we found no evidence that the Michigan 4C Association denied any provider requests due to lack of funds. However, the Michigan 4C

Association provided 398 training incentives to day care aides, while the contract budget estimated that 858 training incentives would be provided; a difference of 460. The numbers of incentives and scholarships and EQUIP grants were also lower than the number estimated.

The Michigan 4C Association correctly billed the child care information sessions under the Contractual Services line item in FY 2004.

WE RECOMMEND that the Children's Services Administration determine if the reduced number of incentives, scholarships and grants, and corresponding increased number of special needs and enhanced referrals compared to the contract budget is acceptable. If so, we recommend that the Children's Services Administration allow the Michigan 4C Association a retroactive line item transfer. If not, we recommend that the Children's Services Administration initiate the process to recoup \$38,934.65 from the Michigan 4C Association.

Schedule A
Michigan 4C Association
Budgeted, Billed, and Actual Costs
With Audit Adjustments

	Budgeted	Billed	Per G/L	Audit Adjustments	Audited Total
Salaries	\$228,564.59	\$209,940.96	\$210,255.72	-\$4,500.00	\$205,755.72
Fringes	\$50,117.23	\$50,143.24	\$48,658.52		\$48,658.52
Occupancy	\$28,112.67	\$28,606.64	\$28,606.97		\$28,606.97
Communication	\$86,901.03	\$94,036.40	\$94,037.37		\$94,037.37
Supplies	\$9,899.42	\$11,112.60	\$11,113.22	-\$828.86	\$10,284.36
Equipment	\$2,708.94	\$3,259.67	\$3,262.73		\$3,262.73
Transportation	\$20,419.00	\$19,628.68	\$19,628.68		\$19,628.68
Contracted Services	\$2,075,150.67	\$2,071,548.38	\$2,256,721.00	-\$7,960.00	\$2,248,761.00
Specific Assistance	\$2,034,900.33	\$2,029,950.00	\$1,892,905.72	-\$3,300.00	\$1,889,605.72
Miscellaneous	\$28,525.62	\$30,881.23	\$31,424.88		\$31,424.88
Total	\$4,565,299.50	\$4,549,107.80	\$4,596,614.81		\$4,580,025.95
Billed					\$4,549,107.80
Dif: Audited - Billed					\$30,918.15
Audited Cont Svcs					\$2,248,761.00
Less Amt Underbilled					-\$30,918.15
Allowable Cont Svcs					\$2,217,842.85
Max per Budget*					\$2,178,908.20
Amt of Needed Amendment					\$38,934.65

* \$2,075,150.67 per budget X 105%